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November 19, 2001

Dave Wolf  
Executive Vice President of Medical Services  
CareFirst BlueCross BlueShield  
10455 Mill Run Circle  
Owings Mills, Maryland 21117

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Dear Dave,

Thank you for the opportunity to help CareFirst prepare an Impact Statement as part of the filings associated with CareFirst's proposed conversion to for-profit status and merger with WellPoint Health Networks, Inc. This letter describes how we will assist in preparation of that statement.

### Background

CareFirst has considered strategic options for increasing its operating scale for several years. The benefits associated with increased scale could include reducing operating costs by achieving economies of scale, stabilizing income and gaining access to more capital for strategic investments.

In 1999, Accenture assisted CareFirst by evaluating several strategic options. A key finding from that analysis was that a significant increase scale could significantly benefit CareFirst. This past month, we updated that analysis to reflect the evolving health care marketplace at the national and Mid-Atlantic levels. This update also included research on the potential impact constituent groups could experience should CareFirst pursue conversion to for-profit status and a simultaneous merger with another health plan. This was accomplished by studying the impact on constituents in other regions of the country where the health plans experienced similar transitions.

On November 20, 2001, CareFirst announced its agreement to merge with WellPoint Health Networks, Inc. An initial step in the merger is the filing of appropriate documents with Maryland, Delaware and the District of Columbia. One document required by the state of Maryland is a Community Impact Statement ("Impact Statement"). You have asked Accenture to prepare this Impact Statement in preparation for a filing that has been scheduled for the week of December 17, 2001.

### Objectives

Overall, your objective for this effort is to obtain an Impact Statement to respond to Maryland's filing requirements. Based on the regulatory documentation you supplied to us in early November, the focus of the Impact Statement will be to demonstrate:

- "Whether the acquisition has the likelihood of creating a significant adverse effect on the **availability** or **accessibility** [emphasis added] of health care services in Maryland"
- "Whether the acquisition includes sufficient safeguards to ensure that Maryland will have continued access to **affordable** [emphasis added] health care"

In addition to meeting this main objective, CareFirst would like to provide the Impact Statement to other jurisdictions served by CareFirst, where it deems appropriate to do so.

### Approach, Scope and Deliverables

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The approach for this work is to quickly identify and prioritize issues based on the terms and conditions of the CareFirst-WellPoint merger that have the greatest potential for impacting the availability, accessibility and affordability of health care in Maryland. Once issues are identified, we will conduct research and process findings to develop objective, fact-based conclusions regarding the issues being assessed and their impact on Maryland's health care. Those conclusions will be used to produce the Impact Statement. Activities include:

- Clarify Key Issues
    - Develop list of interviews to pursue
    - Schedule, prepare for and conduct interview(s)
    - Collect examples of Impact Statements or other similar submissions to use as reference points
      - > From in-scope jurisdictions
      - > Other areas - if the Impact Statement addresses Blues conversion/merger
    - Analyze findings and prioritize issues
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As part of this step, it could be valuable to gather the perspectives of the Commissioner of Maryland's Insurance Agency. We can work out whether and/or how it would be best to do so. Interviews with selected WellPoint executives and the executives of its subsidiaries would also be helpful.

- Review Deal Specifics
  - Obtain documentation from CareFirst
  - Review terms and conditions
  - Map issues against requirements and priorities from key stakeholder interviews
  - Map issues against priorities identified from previous, related impact statements

The primary focus of the deal review will be to identify terms and conditions that could potentially affect availability, accessibility, and affordability.

- Research and Analyze Issues Potentially Affecting Availability, Accessibility, and Affordability
  - Decide on measures to assess availability, accessibility, and affordability
  - Evaluate case study region and compare with terms of this deal to understand impact on availability, accessibility and affordability:
    - > Provider supply (i.e., size of network)
    - > Foundation impact analysis
    - > Governance
    - > Competition
    - > Pricing
    - > Regulation
    - > Products
  - Analyze findings and develop conclusions regarding impacts

We plan to base much of our analysis on the events resulting from WellPoint's merger with Cerulean (Blue Cross Blue Shield of Georgia), because of its similarity with CareFirst's situation. Specifically, we will examine the impact on members before and after Cerulean's conversion and merger. The reasons for focusing on Cerulean include: a) The merger involves WellPoint; b) The merger took place a few years ago, so some time has elapsed to gauge impacts; and c) CareFirst and Cerulean plans are geographically close by one another. Other mergers or conversions may be used where appropriate.

- Develop Impact Statement
  - Draft the Impact Statement and appendix of supporting materials, as appropriate
  - Review with CareFirst executives

- Refine as needed and finalize

We will use examples of other impact statements, as well as interview feedback, to help shape the look and feel of the Impact Statement.

Deliverables for this project include:

- Set of high-priority issues to focus research on
- Set of findings and conclusions
- Impact Statement
- Appendix of exhibits as appropriate

## **Schedule**

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We will begin the work as of Monday, November 19. We expect it will require 4-5 weeks to complete the work.

The Impact Statement will be completed by December 17, in time for the filing with the state of Maryland currently scheduled for December 20.

## **Proposed Team**

The Accenture team will consist of four individuals; an Associate Partner, Scott Soifer, full time (five days per week) to serve as the day-to-day project lead, two staff (five days per week), and myself approximately two days per week. We will also need CareFirst administrative support part-time as needed.

I will have overall responsibility for the engagement for Accenture. I plan to have the team work in their home offices for the majority of the time, and on site at CareFirst as appropriate. While on site, we will need office space, telephones, and analog telephone lines to accommodate three team members. It would be ideal if we could use the same space that we used when we updated the Case for Change.

## **Assumptions**

The following is a list of the assumptions (the "Project Assumptions") upon which Accenture's has relied in agreeing to perform the Services described in this Arrangement Letter, and define the conditions relating to Accenture's performance under this Arrangement Letter. Any deviation from the Project Assumptions may cause changes to the Project schedule, fees and expenses, deliverables, level of effort required, or otherwise impact Accenture's performance of the Services described in this Arrangement Letter.

1. Accenture will be able to access CareFirst, WellPoint and Cerulean data in a timely manner in order to develop conclusions for the Impact Statement
2. The scope of this effort will be as described in the Approach, Scope and Deliverables section in this document

## **Professional Fees and Expenses**

Our professional fees for the team will be the same as for the Case for Change, \$60,000 - 65,000 per week. If the project requires the anticipated 4-5 weeks to complete, the total will be \$240,000 - 325,000. These fees reflect the standard discount we make available to CareFirst. Achieving a four- to five-week schedule is contingent upon our receiving timely, comprehensive, and accurate data, as well as timely access to the appropriate employees at CareFirst, Cerulean, and potentially WellPoint.

Expenses will be billed as incurred and typically are approximately 10-15% of professional fees at our normal billing rates, subject to limitations in our Consulting Services Agreement.

### Terms and Conditions

This document is issued under and is subject to the Consulting Services Agreement by and between Accenture and CareFirst dated October 25, 1999. This agreement serves as an umbrella agreement between CareFirst and Accenture.

Thanks again for the opportunity to help CareFirst prepare as you make significant changes in the direction of the organization. We look forward to working with you and your staff again.

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Sincerely,

ACCENTURE

*Joe Marabito (SLC)*

By  
Joe Marabito

Authorized Signature

*David Wolf*

David Wolf  
Executive Vice President of Medical Systems  
CareFirst of Maryland

*1/8/02*  
Date